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Funds

All Canadian Funds 12th Annual Report 1965

Manager

CAPITAL MANAGEMENT LIMITED

41st Floor, 1 Place Ville Marie, Montreal 2, P.Q.

Directors



W. J. BORRIE,
Chairman



*J. R. AIKMAN



H. A. HAMPSON



NEIL B. IVORY



ROGER LETOURNEAU



ARTHUR PHILLIPS



MAURICE F. STRONG



P. N. THOMSON



WILLIAM E. THOMSON



W. H. WERT



A. FRASER WRIGHT

Officers

W. J. BORRIE, Chairman of the Board

M. F. STRONG, President and Chief Executive Officer

W. H. WERT, Chairman of the Executive Committee

H. A. HAMPSON, Executive Vice-President

P. N. THOMSON, Vice-President

J. R. AIKMAN, Vice-President

P. A. MANSON, Secretary

W. G. E. LANNAMAN, Treasurer

Investment Committee

W. H. WERT, Chairman

J. R. AIKMAN

H. A. HAMPSON

N. B. IVORY

I. A. SOUTAR

W. E. THOMSON

Trustee

MONTREAL TRUST COMPANY,

466 Howe St., Vancouver 1, B.C.

*Effective March, 1966

Highlights of the Year

Dividend Fund

	December 31st, 1965	December 31st, 1964	%Change
Total Net Assets	\$ 94,940,753	\$ 67,267,718	+41.1
Net asset value per share	9.24	8.35	+10.7
Dividends per share	0.27	0.26	+ 3.8

Compound Fund

Total Net Assets	\$ 85,068,238	\$ 57,587,417	+47.7
Net asset value per share	7.11	6.26	+13.6
Reinvested per share	0.198	0.187	+ 5.9

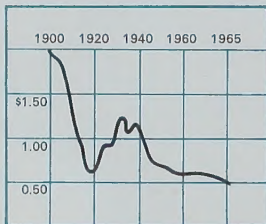
Shareholders

& Planholders

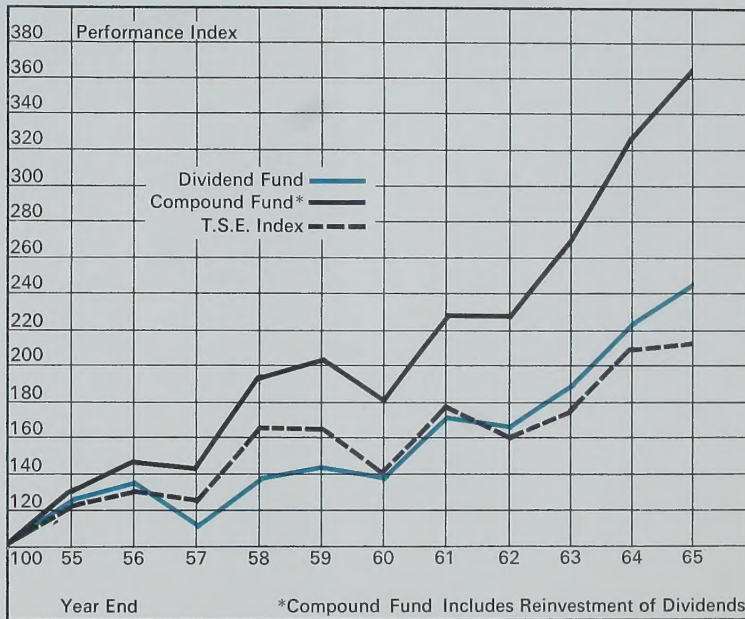
36,268	35,671	+ 1.7
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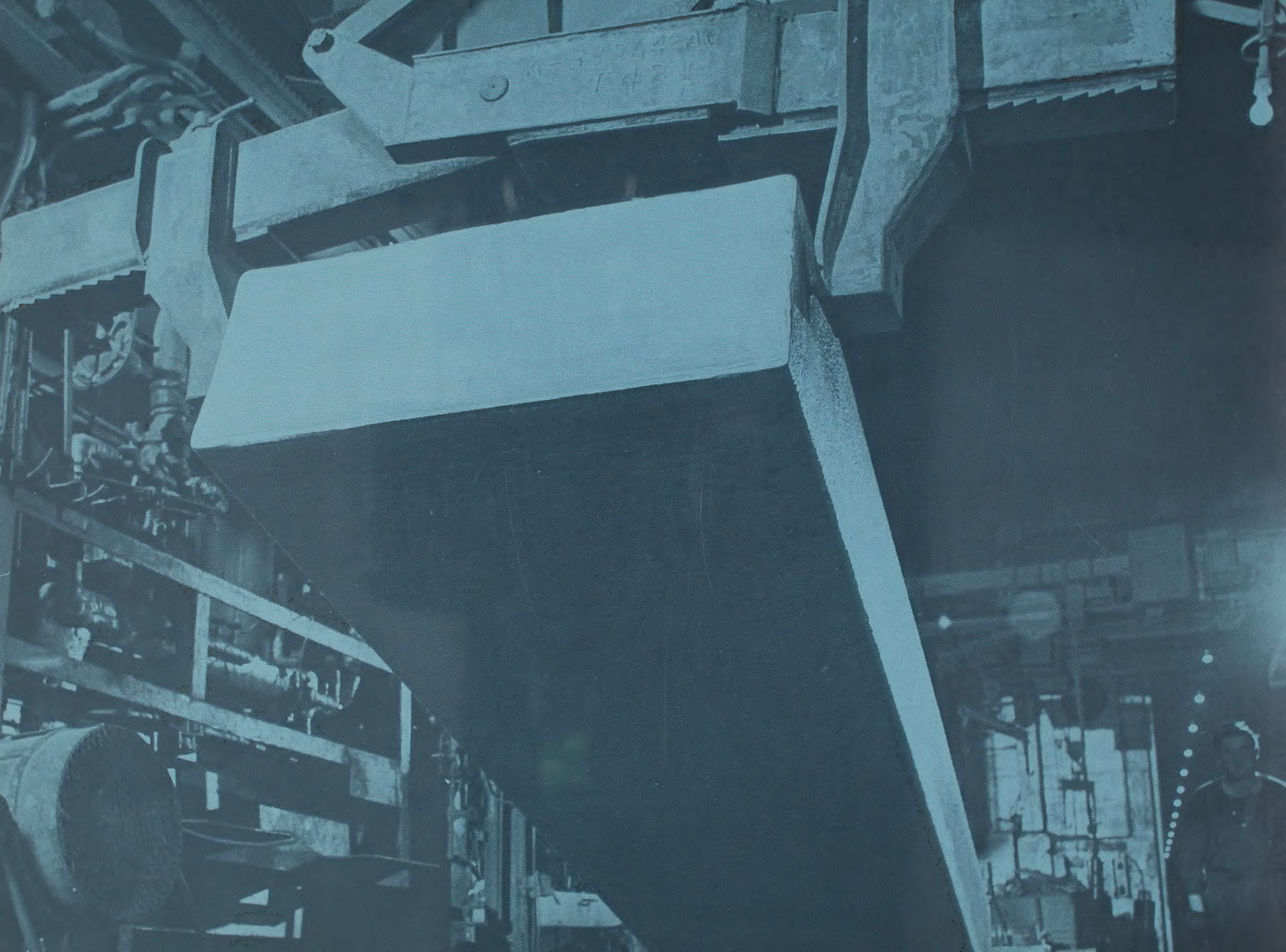
The All-Canadian Story - 12 years of growth

All Canadian Dividend
& Compound Fund
Net Asset Value Per Share
vs
Toronto Stock Exchange Index



PURCHASING POWER
OF THE DOLLAR
1900-1965





12th Annual Report 1965

To Our Shareholders

Once again, assets of the All-Canadian Funds increased by a record amount in 1965 while investment results exceeded those of the Canadian stock markets.

Assets of the Funds expanded 41%, which compares favourably with the substantial increase of 27% for the mutual fund industry as a whole. This continuing evidence of growth in both the relative and absolute popularity of All-Canadian Funds is most gratifying.


Even more gratifying is the 10.7% increase in the value of Dividend Fund shares in a year in which the Toronto Stock Exchange Index of common stock prices gained only 2.1%. In addition, this fund paid out 27¢ per share in dividends during the year. The Compound Fund, which reinvests income automatically, gained 13.6% in value.

Another important milestone was reached in recent weeks when Fund assets surpassed \$100 million under the impetus of strong investment markets and continued brisk demand for Fund shares.

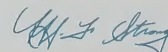
Unrealized capital gains increased \$5,236,200 during the year to \$18,509,123. Investment income also increased substantially, permitting an increase in the dividend rate on Dividend Fund shares to 27¢ from 26¢ in 1964. Amounts reinvested for the benefit of Compound Fund shareholders increased from 18.72¢ to 19.87¢.

Although we share official concern about the recent intensification of inflationary pressures in the economy, we remain confident that the Funds will be able to take advantage of the many investment opportunities that are always present in a dynamic economy.

On behalf of Capital Management Limited,



W. J. BORRIE, Chairman



M. F. STRONG, President

Investment Management Report

Economic Review

1965 was the fifth consecutive year of economic and business expansion in North America. In both Canada and the United States the rate of growth actually increased as Gross National Product in real terms rose 6.6% and 5.5% respectively. Unfortunately, price increases also accelerated, although price experience in other parts of the world was even less satisfactory and thus contributed to a further strengthening of the dollar's position in relation to most other currencies.

Boom conditions have now begun to strain productive resources in terms of both plant and labour, and serious inflationary pressures are reappearing. Unemployment has shrunk to 'hard core' levels in many areas and shortages of skilled personnel are everywhere apparent. Business spending on new plant and equipment has continued its rapid rise, while consumer spending has also maintained its advance under the impetus of an even greater increase in the disposable portion of personal incomes.

Many of the worst distortions associated with previous booms have so far been averted — for example, inventories are not generally excessive in relation to sales — but it is clear that monetary and fiscal restraints may have to be applied with even greater vigour to maintain economic balance in the year ahead.

Encouraging improvements were achieved in the American balance of payments during the year and Canada's current account deficit widened by less than the normal amount for a boom period. Nevertheless, balance of payments problems will continue to influence economic policy during the months ahead and will call for an intensification of efforts to devise improved international financial arrangements which are consistent with sound economic growth in the free world as a whole.

Stock Market Review

Canadian stock markets failed to reflect 1965's generally high levels of

economic activity. As noted in last year's report, economic gains had been discounted in advance by a relatively strong market. In addition, there was some shrinkage in profit margins, which is typical of periods of full or over-full utilization of plant and equipment, of rising costs of borrowed capital and of developing shortages in labour and materials.

More important, perhaps, were the special problems encountered by some of Canada's leading industries. The forest products industry, for example, had to contend with lower newsprint prices in some sectors, lower pulp prices abroad and heavy startup costs on new plants. The steel industry also faced heavy startup costs as well as the expenses associated with maintaining operations at higher than optimum levels. Financial institutions were faced with sharply increased borrowing costs and, in some cases, limited access to short term funds. Most of these difficulties were of a temporary nature, but when added together effectively limited the progress of the market as a whole.

In the United States, fewer such difficulties were in evidence and stock markets in general recorded substantial advances. The Dow Jones Industrial Average, for example, advanced 10.9% with some individual industry groups greatly exceeding this figure and others lagging noticeably. Transactions on the New York Stock Exchange established new records towards the end of the year as concern for the 1966 economic outlook was replaced with growing confidence that the Administration's 'Great Society' programmes could be sustained together with expanded military commitments in Vietnam.

Stock market prices in the United States showed a strong and sustained recovery after the 10% decline in May and June despite continued skepticism as to the level of market prices on the part of small investors. Institutional investors, meanwhile, concentrated their purchases in a relatively few industry groups. The absence of both across-the-board increases and excessive speculation are hopeful portents for 1966.

Fund Activity in 1965

A buying reserve had been accumulated in anticipation of the sell-off in equity markets that eventually occurred in May and June. This reserve amounted to about 20% of portfolio assets and cushioned the effect of the market decline on the Funds; more important, it was subsequently used to acquire some stocks that had declined to bargain prices. The reserve position was gradually restored on the market upswing.

Your Manager decided at mid-year to increase the proportion of American securities in the Fund's portfolio in view of the greater investment opportunities they appeared to offer at the time. Accordingly, existing U.S. holdings were increased and several new companies were added to the portfolio. Purchases were centered in airlines, textiles, railroads and consumer electronics, and these holdings contributed significantly to the year's favourable results.

Selection and timing proved to be even more important than usual in dealing in the Canadian market in the difficult environment of 1965. By the end of the year, our Canadian investments had become concentrated in certain particular industries — such as farm equipment, merchandising, aluminum, nickel, steel, textiles and publishing — while other large industries were given little or no representation because of the limited potential or high degree of risk which seemed to be inherent in them.

Outlook for 1966

Any assessment of present economic trends and their consequences for the business outlook is bound to be favourable, and we remain confident that no major breakdown in the present pattern of growth is about to occur. The course of stock markets in 1966 is more difficult to predict since markets have only an indirect relationship to the economy in the very short run, as indicated by the unjustified market break of 1962. Risks have

certainly increased as the rate of gain in corporate profits is being slowed by physical and labour shortages, by tighter credit conditions and by growing inflationary pressures which force production costs upward. The unpredictable course of the war in Vietnam, too, will have a direct bearing on both the extent of these inflationary pressures and the sentiments of equity investors.

Our summary of the outlook for 1965 — to the effect that the economic undertone would remain strong, but that equity values would show little change on balance — may have been correct enough to encourage an even more precise forecast this year, but we are prepared to go no further than to predict a similar environment in 1966 and one that will provide us with at least as many investment opportunities. We believe that our capacity for taking advantage of such opportunities is even greater now than it was a year ago as our management team has been further strengthened and our access to investment data has been continually widened.

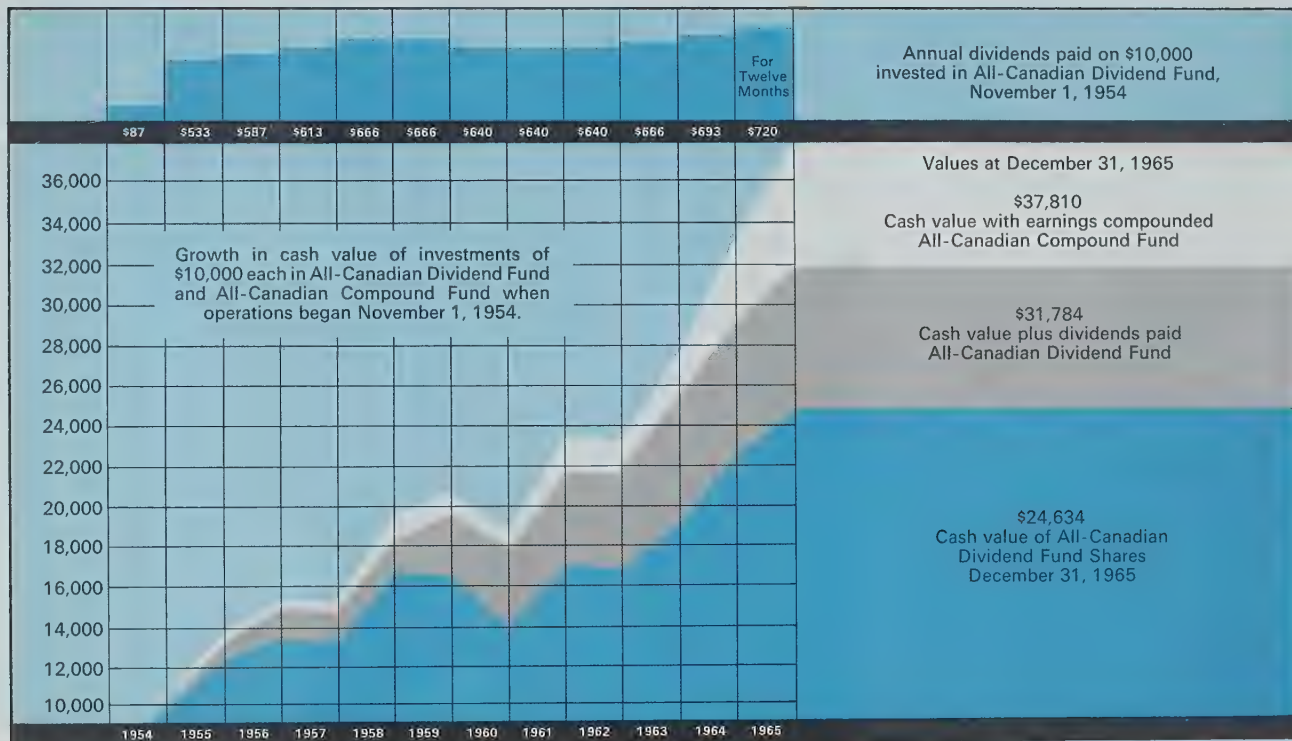
Investment Policy

The All-Canadian Funds have entered 1966 with their principal investment holdings outperforming the Canadian and U.S. market averages. We remain fairly aggressive in our portfolio acquisitions, but are not allowing the quality of the portfolio to deteriorate for the sake of the short-term opportunities which exist in some stocks with a semi-speculative following. At the same time, we are maintaining a 20% liquidity position to take advantage of individual buying opportunities. We continue to eliminate positions which do not in our opinion offer capital appreciation possibilities commensurate with the risks involved in maintaining them. Our investment policy, therefore, remains constructive, but we are putting more than the normal premium on the flexibility which stems from a sizeable holding of readily realizable short-term securities.

History of the Funds

<i>Dividend Fund</i>	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
Total Net Assets	\$94,940,753	67,267,718	44,977,577	31,982,462	26,717,929	21,395,944	24,684,395	18,366,233	8,127,205	7,389,820	4,932,580	1,273,598
—% change in year	+41.1	+49.6	+40.6	+19.8	+24.5	—13.4	+34.4	+125.9	+9.9	+49.8	+278.2	—
Shares outstanding	10,271,348	8,048,667	6,356,546	5,216,866	4,168,571	4,151,268	4,059,209	3,008,583	1,719,734	1,468,499	1,061,283	336,507
Net asset value per share	\$9.24	8.35	7.08	6.13	6.41	5.16	6.08	6.11	4.67	4.96	4.59	3.76
—% change in year	+10.7	+17.9	+15.5	—4.4	+24.2	—15.1	—1.6	+30.8	—5.9	+8.0	+22.1	—
Gross Revenues	\$2,527,337	1,624,340	1,190,793	886,548	760,500	735,290	920,770	469,407	251,671	334,482	133,153	8,091
Realized capital gains (losses)	\$3,467,696	2,989,760	1,830,432	192,463	539,025	(765,210)	285,271	1,155,276	642,383	228,812	150,228	—
Operating expenses	\$520,206	369,498	271,767	180,200	146,375	138,969	119,649	70,788	42,000	34,000	17,510	1,098
Net income	\$2,007,131	1,254,842	919,026	706,348	614,125	596,321	801,121	398,619	209,671	300,482	115,643	6,993
Dividend paid per share	\$0.27	0.26	0.25	0.24	0.24	0.25	0.25	0.25	0.23	0.22	0.20	0.0325
Taxable portion of dividend	\$0.222	0.172	0.194	0.152	0.134	0.143	0.213	0.184	0.129	0.152	0.157	0.029
Non-taxable portion of dividend	\$0.048	0.088	0.056	0.088	0.106	0.097	0.037	0.066	0.101	0.068	0.043	0.003
<i>Compound Fund</i>												
Total Net Assets	\$85,068,258	57,587,417	35,242,902	22,919,787	15,549,409	11,624,385	13,594,995	8,486,349	2,734,488	2,300,952	1,511,936	437,415
—% change in year	+47.7	+63.4	+53.8	+47.4	+33.8	—14.5	+60.2	+210.3	+18.8	+52.2	+245.6	—
Shares outstanding*	11,956,564	9,187,526	6,822,749	5,278,172	3,557,332	3,430,606	3,565,356	2,304,612	1,013,606	839,820	623,462	231,232
Net asset value per share*	\$7.11	6.26	5.17	4.34	4.37	3.39	3.815	3.68	2.70	2.74	2.425	1.897
—% change in year	+13.6	+21.1	+19.1	—0.7	+28.9	—11.2	+3.7	+36.3	—1.5	+13.0	+27.9	—
Income reinvested	\$2,186,201	1,492,480	1,065,030	732,480	536,820	537,540	487,210	243,590	123,550	93,090	53,160	3,737
Income reinvested per share*	\$0.198	0.187	0.175	0.165	0.16	0.153	0.1525	0.147	0.129	0.118	0.1025	0.016
Taxable portion of reinvested dividend	\$0.163	0.124	0.136	0.1035	0.089	0.091	0.129	0.107	0.0715	0.0805	0.0795	0.0145
Non-taxable portion of reinvested dividend	\$0.035	0.063	0.039	0.0615	0.071	0.062	0.0235	0.040	0.0575	0.0375	0.0230	0.0015
<i>Shareholders & Planholders</i>												
	36,268	35,671	28,176	18,619	10,676	10,167	9,843	6,102	3,415	3,138	2,170	641

*per share figures adjusted prior to December 31st, 1963 due to 2 for 1 stock split in April 1963





Portfolio changes during the Year

Purchases

Company	No. of Shares	Holding at Year End
Aluminium Ltd.	31,000	125,000
Air Reduction Co. Inc.	7,500	7,500
Banque Provinciale du Canada	5,000	5,000
British Columbia Forest Products Ltd.	3,000	93,000
Burlington Industries Inc.	22,800	77,600
Calgary Power Ltd.	40,400	112,900
Canadian Imperial Bank of Commerce	5,000	5,000
Distillers Corp. Seagrams Ltd.	33,500	33,500
General Cable Corporation	26,800	—
International Nickel Co. of Canada Ltd.	25,000	25,000
Laurentide Financial Corp. \$2. 2nd. pfd.	38,000	38,000
M. Loeb Limited	150,000	150,000
Maritime Telephone & Telegraph Co. Ltd.	5,500	25,500
Massey-Ferguson Limited	35,000	175,000
Moore Corporation Ltd.	22,700	27,700
New York Central Railroad	40,000	40,000
Northwest Airlines Inc.	25,000	25,000
Pen American World Airways Inc.	40,000	50,000
Radio Corp. of America	50,000	50,000
Rio Algom Mines Ltd.	100,000	100,000
Southam Press Limited	16,600	46,000
Steel Company of Canada Ltd.	105,000	105,000
Sun Publishing Co. Ltd. "A"	4,500	37,500
Sun Publishing Co. Ltd. "B"	2,000	2,000
Westcoast Transmission Co. Ltd.	50,000	50,000
Whirlpool Corporation	31,000	56,000

Sales

Company	No. of Shares	Holding at Year End
Algoma Steel Corp. Ltd.	31,300	—
Bank of Montreal	5,700	5,700
Bank of Nova Scotia	125	11,875
Bank of Western Canada	20,000	—
Caterpillar Tractor Co.	36,000	—
Chemcell (1963) Ltd.	70,000	—
Chrysler Corporation	31,200	—
Clark Equipment Company	22,500	—
Ford Motor Co.	30,300	7,700
General Cable Corporation	26,800	—
I.A.C.	6,000	—
Imperial Oil Ltd.	10,300	6,100
Pan American World Airways Inc.	40,000	50,000
Placer Development Ltd.	53,630	—
Royal Bank of Canada	1,500	8,500
St. Joseph Lead Co.	3,950	32,500
Texaco Canada Limited	10,200	—
Hiram Walker-Gooderham & Worts Ltd.	14,000	20,000
Trans-Canada Pipe Lines Ltd. 5% Convertible Debentures, 1989	\$1,275,000	\$225,000



Number of shares	Common Stocks	Average cost	Market value	% of assets
7,700	AUTOMOTIVE Ford Motor Company	\$ 409,889	\$ 450,088	.5
7,500	CHEMICALS Air Reduction Co. Inc.	605,733	600,653	.6
29,000	Union Carbide Canada Ltd.	696,000	819,250	.8
50,000	ELECTRONICS Radio Corporation of America	2,556,536	2,539,650	2.7
3,500	FINANCIAL Banque Canadienne Nationale	282,600	244,563	.3
5,700	Bank of Montreal	366,840	370,500	.4
11,875	Bank of Nova Scotia	861,782	893,593	.9
5,000	La Banque Provinciale du Canada	262,281	255,000	.3
5,000	Canadian Imperial Bank of Commerce	333,488	333,750	.4
8,500	Royal Bank of Canada	639,142	637,500	.7
33,500	FOOD & BEVERAGES Distillers Corporation — Seagrams Ltd.	1,323,551	1,289,750	1.4
20,000	Hiram Walker Gooderham & Worts Ltd.	582,634	712,500	.8
93,000	FOREST PRODUCTS B. C. Forest Products Ltd.	1,467,305	2,139,000	2.3
175,000	MACHINERY & EQUIPMENT Massey-Ferguson Ltd.	2,668,660	5,928,125	6.2
56,000	Whirlpool Corporation	1,975,918	2,453,136	2.6
150,000	MERCHANDISING M. Loeb Limited	2,072,611	2,381,250	2.5
76,300	Steinberg's Limited "A"	1,998,299	3,967,600	4.2
93,500	Woodward Stores Limited "A"	1,346,789	2,454,375	2.6
125,000	METAL & MINING Aluminium Ltd.	3,653,143	4,187,500	4.4
25,000	International Nickel Company of Canada, Limited	2,365,828	2,425,000	2.5
63,000	Reynolds Metals	2,055,601	3,343,914	3.5
100,000	Rio Algom Mines Limited	1,647,470	1,912,500	2.0
32,500	St. Joseph Lead	1,557,776	1,716,293	1.8
27,700	OFFICE EQUIPMENT Moore Corp. Ltd.	1,735,884	2,254,088	2.4
6,100	OIL & GAS Imperial Oil Ltd.	265,823	320,250	.3
112,900	PUBLIC UTILITIES Calgary Power Ltd.	2,503,425	3,104,750	3.3
25,500	Maritime Telephone & Telegraph Co. Ltd.	525,058	548,250	.6
50,000	Westcoast Transmission Company Ltd.	1,150,889	1,118,750	1.2
46,000	PRINTING & PUBLISHING Southam Press Ltd.	1,549,016	1,840,000	1.9
37,500	Sun Publishing Co. Ltd. "A"	728,109	900,000	.9
2,000	Sun Publishing Co. Ltd. "B"	50,535	50,000	.1
113,200	STEEL Dominion Foundries & Steel Ltd.	1,126,069	3,084,700	3.2
105,000	Steel Company of Canada Limited	3,100,434	2,782,500	2.9
77,600	TEXTILES Burlington Industries Inc.	2,445,685	3,576,584	3.8
91,500	Dominion Textile Co. Ltd.	1,941,397	2,973,750	3.1
40,000	TRANSPORTATION New York Central Railroad	2,744,567	3,418,480	3.6
25,000	Northwest Airlines	2,319,583	3,429,900	3.6
50,000	Pan American World Airways	1,355,279	2,747,950	2.9
		<u>55,271,629</u>	<u>74,205,442</u>	<u>78.2</u>

Number of shares	Preferred Stock	Average cost	Market value	% of assets
38,000	Laurentide Financial Corporation Ltd. \$2.00 preferred	<u>1,520,000</u>	<u>1,121,000</u>	<u>1.2</u>
Par Value	Bonds and debentures			
\$2,000,000	Government of Canada, 3½%, September 1966	\$1,983,500	\$1,983,000	2.1
2,000,000	Government of Canada, 4% December 1966	1,978,500	1,978,000	2.1
325,000	B.C. Hydro and Power Authority, 5%, November 1967	326,950	325,000	.3
120,000	B.C. Hydro and Power Authority, 5%, November 1968	120,500	120,000	.1
310,000	Pacific Great Eastern Railway, 5½%, September 1966	313,678	310,000	.3
225,000	Trans-Canada Pipelines Ltd., 5%, December 1989	<u>263,812</u>	<u>245,250</u>	<u>.2</u>
		<u>4,986,940</u>	<u>4,961,250</u>	<u>5.1</u>

Bank Deposits and Commercial Paper

Par Value	Security	Average cost	Market value	% of assets
1,000,000	Banque Canadienne Nationale, 5½% Deposit, March 3, 1966	1,000,000	1,000,000	1.1
1,000,000	Dominion Bridge Company Limited, 5½% Demand Note, February 3, 1966	1,000,000	1,000,000	1.1
500,000	Dupont of Canada Limited, 5¼% Demand Note, January 17, 1966	500,000	500,000	.5
1,000,000	Export Finance Corporation of Canada Limited, 5¼% Demand Note, January 4, 1966	1,000,000	1,000,000	1.1
500,000	Ford Motor Credit Co. of Canada Limited, 5¼% Demand Note, January 7, 1966 (Guaranteed by Ford Motor Company)	497,791	497,791	.5
500,000	Ford Motor Credit Co. of Canada Limited, 5¼% Demand Note, January 18, 1966 (Guaranteed by Ford Motor Company)	497,570	497,570	.5
500,000	Great Canadian Oil Sands Limited, 5¼% Demand Note, January 19, 1966 (Guaranteed by Sun Oil of Philadelphia)	500,000	500,000	.5
500,000	Laurentide Financial Corporation Limited, 5¼% Secured Note, February 1, 1966	500,000	500,000	.5
500,000	Montreal Trust Company, 5.40% Guaranteed Investment Cert., February 21, 1966	500,000	500,000	.5
400,000	Montreal Trust Company, 5.40% Guaranteed Investment Cert., February 24, 1966	400,000	400,000	.4
1,000,000	National Trust Company Limited, 5¼% Demand Note, February 3, 1966	1,000,000	1,000,000	1.1
1,000,000	Simpson Sears Acceptance Co. Limited, 5¼% Demand Note, February 8, 1966 (Guaranteed by Simpson Sears Ltd.)	1,000,000	1,000,000	1.1
500,000	Singer Credit Co. of Canada Limited, 5¼% Demand Note, February 2, 1966	500,000	500,000	.5
2,206,650	The Royal Bank of Canada, 4% Deposit	2,379,004	2,379,004	2.5
1,500,000	The Royal Bank of Canada, 5¼% Deposit, March 14, 1966	1,500,000	1,500,000	1.6
500,000	The Royal Bank of Canada, 5¼% Deposit, March 30, 1966	<u>500,000</u>	<u>500,000</u>	<u>.5</u>
		<u>13,274,365</u>	<u>13,274,365</u>	<u>14.0</u>
	Total investments	75,052,934	93,562,057	98.5
	Cash and receivables, less payables	<u>1,378,696</u>	<u>1,378,696</u>	<u>1.5</u>
	Total net assets	<u>\$76,431,630</u>	<u>\$94,940,753</u>	<u>100.0</u>

NOTE — The average cost of U.S. investments has been converted to Canadian dollars at the exchange rate prevailing at the date of acquisition and the market value thereof at the exchange rate prevailing at December 31, 1965.

We report that, in our opinion, the above Summary of Net Assets of All-Canadian Dividend Fund as at December 31, 1965 fairly presents the information it purports to show.

Montreal, Que.
January 31, 1966.

Loeb, Ross, Bailey & Smart
Chartered Accountants.

All-Canadian Dividend Fund

STATEMENT OF INCOME AND EXPENDITURE
FOR THE PERIOD OF TEN YEARS ENDED DECEMBER 31, 1965

Year	Income from investments	Proceeds from sale of rights	Operating expenses	Net income	Gain on sale of investments
1956	\$ 237,337	\$97,145	\$ 34,000	\$ 300,482	\$ 228,812
1957	245,691	5,980	42,000	209,671	642,383
1958	469,407		70,788	398,619	1,155,276
1959	909,570	11,200	119,649	801,121	285,271
1960	724,790	10,500	138,969	596,321	(765,210)
1961	760,500		146,375	614,125	539,025
1962	886,548		180,200	706,348	192,463
1963	1,121,823	68,970	271,767	919,026	1,830,432
1964	1,595,468	28,872	369,498	1,254,842	2,989,760
1965	2,527,337		520,206	2,007,131	3,467,696

STATEMENT OF SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1965

1965		
Balance as at December 31, 1964		\$4,566,625
Add: Net income from investments	\$2,007,131	
Gain on sale of investments	<u>3,467,696</u>	5,474,827
		<u>10,041,452</u>
Less: Dividends paid (Note 4)		<u>2,515,395</u>
Balance as at December 31, 1965		<u><u>\$7,526,057</u></u>
1964		
Balance as at December 31, 1963		\$2,161,467
Add: Net income from investments	\$1,254,842	
Gain on sale of investments	<u>2,989,760</u>	4,244,602
		<u>6,406,069</u>
Less: Dividends paid (Note 4)		<u>1,839,444</u>
Balance as at December 31, 1964		<u><u>\$4,566,625</u></u>

BALANCE SHEET
AS AT DECEMBER 31, 1965

Assets

	1965	1964
Investments, at market value	\$93,562,057	\$66,525,124
(Average net cost 1965 \$75,052,934)		
(Average net cost 1964 \$53,252,201)		
Cash on deposit — Montreal Trust Company	816,137	597,666
Accrued revenue on investments	324,089	144,928
Due from brokers for securities sold	512,788	—
	\$95,215,071	\$67,267,718
Less:		
Due to brokers for securities purchased	274,318	—
Total net assets	<u>\$94,940,753</u>	<u>\$67,267,718</u>

Shareholders' Interest

Represented by		
Shares issued and outstanding — Notes 1 and 2	\$68,905,573	\$49,428,170
(1965 — \$10,271,348,032)		
(1964 — \$8,048,666,808)		
Surplus — Note 4	7,526,057	4,566,625
Excess of Market Value over Average		
Net Cost of Investments	<u>18,509,123</u>	<u>13,272,923</u>
	<u>\$94,940,753</u>	<u>\$67,267,718</u>

Note 1 — During the year ended December 31, 1965, 2,374,661,359 shares were issued for \$20,826,410 while 151,980,135 shares were redeemed for \$1,349,007. As at December 31, 1965, 13,274,845,809 shares had been issued, of which 3,003,497,777 shares had been redeemed.

Note 2 — As at December 31, 1965, 88.6% of the outstanding shares were held by All-Canadian Compound Fund.

Note 3 — As at December 31, 1965, the net asset value per share outstanding was \$9.24.

Note 4 — To provide a better return for shareholders seeking income, and to stabilize the Dividend Fund's dividend rate, it is the present policy to distribute each year in the form of dividends a portion of the realized capital appreciation of the Fund as well as the entire net investment income after expenses. During the year ended December 31, 1965, dividends totalling \$2,515,395 were paid on shares outstanding of which \$2,007,131 was derived from net investment income and the balance of \$508,264 from gain on sale of investments.

The net balance on surplus account of \$7,526,057 arises entirely from gains on sales of investments to December 31, 1965.

Note 5 — Operating Expense for the period ended December 31, 1965 is comprised of the following:

Management fee	\$421,236
Trust Company fees and expenses	98,970
	<u>\$520,206</u>

The balance sheet of All-Canadian Dividend Fund has been examined by us and approved.

Director, H. A. HAMPSON

CAPITAL MANAGEMENT LIMITED
Vancouver, B.C.

Assist. Manager, W. H. LOADER

MONTREAL TRUST COMPANY
Vancouver, B.C.

*Auditors' Report
to the Shareholders*

We have examined the balance sheet of All-Canadian Dividend Fund as at December 31, 1965 and the statement of surplus for the year ended on that date together with the statement of income and expenditure for the ten years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the above balance sheet and statements of surplus and of income and expenditure present fairly the financial position of the Fund as at December 31, 1965 and the results of its operations for the ten years then ended, in accordance with generally accepted accounting principles applied on a consistent basis throughout the period.

Louise Ross, Barry Smart

Chartered Accountants

Vancouver, B.C. and
Montreal, Quebec,
January 31, 1966

All-Canadian Compound Fund

BALANCE SHEET AS AT DECEMBER 31, 1965

<i>Assets</i>	1965	1964
Investments, at market value — note 1 (Cost 1965 — \$65,186,803) (Cost 1964 — \$44,838,527)	\$84,084,000	\$56,680,800
Cash on deposit — Montreal Trust Company	42,565	41,601
Receivable — All-Canadian Group Distributors Limited	941,693	865,016
	<u>\$85,068,258</u>	<u>\$57,587,417</u>
 <i>Shareholders' Interest</i>		
Represented by:		
Shares issued and outstanding — note 2 (1965 — \$11,956,564.613) (1964 — \$ 9,187,525.816)	\$58,616,193	\$40,376,477
Reinvested income	7,554,868	5,368,667
Excess of market value over cost of investments	18,897,197	11,842,273
	<u>\$85,068,258</u>	<u>\$57,587,417</u>

Note 1 — Investments consist entirely of 9,100,000 shares of All-Canadian Dividend Fund, representing 88.6% of the outstanding shares of that Fund as at December 31, 1965.

Note 2 — During the year ended December 31, 1965 4,550,591.568 shares were issued for \$30,214,512.71 while 1,781,552.771 shares were redeemed for \$11,974,797.21. As at December 31, 1965 17,302,119.706 shares had been issued of which 5,345,555.093 shares had been redeemed.

The balance sheet of All-Canadian Compound Fund has been examined by us and approved.

Director, H. A. HAMPSON
CAPITAL MANAGEMENT LIMITED
Vancouver, B.C.

Assist. Manager, W. H. LOADER
MONTREAL TRUST COMPANY
Vancouver, B.C.

STATEMENT OF REINVESTED INCOME

FOR THE PERIOD OF TEN YEARS ENDED DECEMBER 31, 1965

Year	Net income received and reinvested	Total cumulative reinvested income
Balance as at December 31, 1955		\$ 56,897
1956	\$ 93,090	149,987
1957	123,550	273,537
1958	243,590	517,127
1959	487,210	1,004,337
1960	537,540	1,541,877
1961	536,820	2,078,697
1962	732,480	2,811,177
1963	1,065,030	3,876,207
1964	1,492,460	5,368,667
1965	2,186,201	7,554,868

Note — As the net income consists entirely of dividends paid by All-Canadian Dividend Fund, which has been charged with all operating expenses, no operating expenses are paid directly by All-Canadian Compound Fund.

Auditors' Report to the Shareholders

We have examined the balance sheet of All-Canadian Compound Fund as at December 31, 1965 and the statement of reinvested income for the ten years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the above balance sheet and statement of reinvested income presents fairly the financial position of the Fund as at December 31, 1965 and the results of its operations for the ten years then ended, in accordance with generally accepted accounting principles applied on a consistent basis throughout the period.

Louise Ross, Shirley Smart

Chartered Accountants.

Vancouver, B.C. and
Montreal, Quebec.
January 31, 1966.

Place Ville Marie, Montreal,
the head office of
Capital Management Limited



Systematic Security Plans

More than 20,000 Canadian families have taken advantage of the long term investment accumulation plans offered by All-Canadian Group Distributors Limited, (national distributors of the shares of the Funds) through their more than 300 representatives in the 16 sales offices located across Canada. These Systematic Security Plans allow investors to make regular monthly payments ranging from \$10 to \$10,000.

The proceeds from these payments are used to accumulate shares in the All-Canadian Compound Fund. At the end of the accumulation period, the planholder will have invested his stated objective in the Fund. These plans may be combined with completion life insurance if desired and, in the event of death the plan objective will be completed by the use of the insurance proceeds.

This regular, planned investment approach, is becoming increasingly popular with many Canadians. The prime appeal of this form of investment is that payments are made regularly from monthly income and, as a result, the investor can take advantage of what we technically call "Dollar Cost Averaging".

The Systematic Security Plans enable many Canadians to participate in the country's industrial future, the great majority of whom would be unable to do so in any other manner.



Systematic Withdrawal Accounts

All-Canadian Group Distributors Limited, as the distributor and administrator of the Systematic Withdrawal Plans, offers to shareholders of the Fund, the services of a regular periodic withdrawal plan.

Retired families in particular find that the Systematic Withdrawal Plan offers a convenient method of obtaining regular monthly payments from savings which are invested in the Fund and at the same time gain the advantages of having these savings under constant management and supervision.

During the period since World War II, inflation has been the greatest enemy of savings and, the Systematic Withdrawal Account has proven to be one of the ways in which the purchasing power of these savings could be maintained.

Withdrawals of any amount can be arranged, but the investor should keep in mind that withdrawals in excess of the dividend earnings and capital appreciation of the Fund would eventually encroach upon or exhaust the original capital.

Should you as a shareholder desire further information about this service we hope that you will write to us for an informative brochure.

Registered Retirement Savings Plans

Section 79B of the Income Tax Act provides substantial tax incentives for individuals who wish to establish personal Retirement Plans under the Act.

Many of our shareholders are currently investing in the All-Canadian Compound Fund, using our "All-Canadian Registered Security Plans".

An informative brochure is available to any shareholder requesting further information on this service.



Why common stocks ?

In recent years, ownership of North American industry has grown even more rapidly than the economy itself, but only with the development of modern computer technology has it become possible to measure the actual rate of return provided by common stocks generally over long periods of time.

A major milestone in this type of research was the release in 1964 of the results of a computer study undertaken by the Graduate School of Business at the University of Chicago. This study embraced every common stock that was listed on the New York Stock Exchange from 1926 to 1960. The necessary information was gathered over a four year period, yet the giant IBM computer took only twenty minutes to make the 400,000,000 calculations involved in the study.

Significant findings, which are broadly typical of Canadian experience also, included :

—If you had invested an equal dollar amount in all common stocks included in the study in 1926 your return would have exceeded 9% compounded annually through 1960. This means that every dollar invested in 1926 was worth twenty dollars by 1960.

—If you had picked at random a stock, a purchase date and a later sale date within this 35-year period you would have made a profit 78% of the time and the median average return would have been 9.8% per year, compounded annually.

—Your risk of losing as much as 20% on a random selection was only 1 in 13. On the other hand, your expectation of making as much as 20% per year compounded was 1 in 5.

—If you had been 'unlucky' enough to have invested an equal dollar amount in all stocks featured in this study on September 30, 1929, the market peak for many years to come, your return on investment by 1960 would still have amounted to 7.7% compounded annually.

These results were arrived at after allowing for the reinvestment of all dividends and after payment of brokerage fees averaging 1% for each transaction.

It is safe to assume that no other broad type of investment — bonds, debentures, mortgages, bank deposits and the like — would have yielded a comparable rate of return except over very short periods of time. If personal income taxes were taken into account, the advantages of common stocks would be even more apparent.

For a variety of reasons, typical investor experience is unlikely to have matched the favourable results indicated by the University of Chicago study. Nevertheless, the message is clear that common stocks have proven to be not only the most rewarding investment medium over the years, but probably the only generally available investment medium through which investors could effectively offset the decline in purchasing power of their dollar assets.

Why mutual funds ?

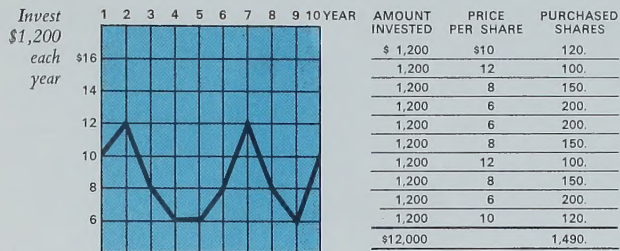
Most investors have neither the time, the experience nor the capital resources to select a portfolio of investments that will minimize risks and maximize investment opportunities. Nor are they in a position to keep their investments under constant review in a changing environment. All too often their problems are compounded by rapid changes in common stock prices which induce them to make poor investment decisions. In fact, the increasing complexity of investment in a dynamic economy has fostered the development of professionally managed investment institutions which in turn are exerting a powerful influence in the market place.

The growth of the mutual fund industry among these investment institutions testifies to the public acceptance of the principle of a single investment security incorporating the professional management, and administrative and custodian services which individual investors might otherwise have to find for themselves. Through mutual funds, these services are available to large and small investors alike at a cost which relates to the size of the individual investment but which is no greater, and for small investors considerably less, than is commonly paid by large private and corporate investors who maintain portfolios of their own.

Why dollar cost averaging ?

Accepting the facts about common stock investment as revealed in the University of Chicago study outlined above, what can the individual do directly to enhance his investment results ? We would suggest that, firstly, he should commit his investment assets to full time professional management ; secondly, that he should save and invest regularly.

It requires no investment experience to recognize that each dollar invested when prices are high will buy fewer shares than when prices are low ; consequently, if an individual invests a specific dollar amount on a regular basis the average cost of the shares he buys will be less than the average of the price he pays. To illustrate, we offer the following example :



Total Cost 1,490 Shares.....\$12,000 Value of 1,490 Shares @ \$10.....14,900
 24% gain when the market showed no change

This is known as dollar cost averaging. In the long run, it will usually result in an improvement in the overall return on total funds invested. For the convenience of investors who prefer to invest on a regular basis, thereby taking advantage of dollar cost averaging, periodic investment plans based on the All-Canadian Compound Fund are available through the Fund's distributor, All-Canadian Group Distributors Limited.

We have introduced this discussion to encourage our readers to consider whether:

- investment in common stocks has sufficient emphasis in their investment programmes;
- mutual fund shares provide the most satisfactory means available to them of realizing the benefits of common stock investment;
- dollar cost averaging should form part of their particular investment programmes.

The All-Canadian Funds are Canadian-owned and -managed mutual funds which have as their stated objective the achievement of above-average performance in relation to the trend of stock markets generally. For further information about the All-Canadian Funds, we suggest you contact the Fund's distributor, All-Canadian Group Distributors Limited, at any of the company's offices across Canada.

NOTE: This is not an offer to sell a security. Shares of the All-Canadian Funds may be sold only when accompanied by a current Prospectus.



Manager:

CAPITAL MANAGEMENT LIMITED,
 41st Floor, 1 Place Ville Marie,
 Montreal 2, Que.

Trustee:

MONTREAL TRUST COMPANY,
 466 Howe St.,
 Vancouver 1, B.C.



Distributor:

ALL-CANADIAN GROUP DISTRIBUTORS LIMITED
 1310 Greene Ave.,
 Montreal 6, Que.

